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TAGS: [EFIN](#) [ECON](#) [ETRD](#) [RS](#)  
SUBJECT: AMBASSADOR'S 3/27 MEETING WITH FINANCE MINISTER  
KUDRIN

REF: A. MOSCOW 1333  
[1](#)B. MOSCOW 1210

Classified By: Charge d'Affaires Daniel A. Russell: 1.4 (b/d).

#### Summary -----

[1](#)1. (C) In a March 27 meeting with Finance Minister Kudrin, the Ambassador pushed for Russian progress on remaining problem areas in WTO talks and raised our concern over pending legal action against PricewaterhouseCoopers. There are no plans to revoke the audit license of PricewaterhouseCoopers, and he continues to monitor developments in the legal case involving PwC audits of Yukos. Kudrin looked forward to discussing Russia's WTO negotiations on the margins of the spring World Bank-IMF meetings in Washington. He also summarized the status of debt negotiations with Afghanistan (ready for signature), Iraq (technically ready, pending discussions with the GOI), and North Korea (still the subject of interagency discussion). Kudrin plans to invite Secretary Paulson to participate in the St. Petersburg Economic Forum in June. End Summary.

#### WTO Talks -----

[1](#)2. (C) The Ambassador raised WTO accession talks and pushed Kudrin on the need for Russia to move more decisively on remaining problems in agriculture and other areas (along the lines of the conversation a day earlier with Gref reported in reftel A). "Russia needs help with WTO accession," Kudrin noted. Putin has placed a high priority on concluding the multilateral negotiations and signing the accession agreement -- ideally by this fall -- but certainly before the end of his presidency next year. Kudrin may call on Members of Congress during the upcoming World Bank/IMF meetings (April 14-15) to explain Russian positions and elicit support for accession. Ambassador reminded Kudrin that House Foreign Affairs Committee Chairman Tom Lantos had pledged recently to lead an effort in Congress to repeal Jackson-Vanik.

#### PwC's Audit Case -----

[1](#)3. (C) The Ambassador raised our concerns over pending legal action against PricewaterhouseCoopers and the potential implications for Russia's own economic reputation. Kudrin

was very familiar with PwC's case, knew that the Yukos audit contracts had been declared void by the court last week, and that PwC had been ordered to pay the government its auditing fees plus administrative fines (Reftel B). Ambassador asked if the Finance Ministry planned to revoke PwC's license. Kudrin said that there was no basis for PwC's license to be revoked. He was careful to note that the Finance Ministry was not a party to the court case and had not seen the documents the tax inspectorate attorneys had submitted "at the last minute." He has asked Deputy Finance Minister Shatalov to review the court's written decision (still pending) and apprise him if further deliberations on the licensing issue are necessary. Kudrin added that the Finance Ministry was drafting legislation to clarify the roles and responsibilities of auditors.

#### Paulson Invitation

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¶4. (C) Kudrin intends to invite Treasury Secretary Paulson to participate in the St. Petersburg Economic Forum in June. He laid out his vision for Forum to become a "stronger platform" for discussions on common economic interests as well as broader global economic trends. The Forum would benefit from Secretary Paulson's participation, which would underscore the importance of the bilateral economic relationship.

#### Debt Relief Talks

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¶5. (C) Afghanistan. The GOR is assessing Afghanistan's suggested edits to the debt relief proposal that had been provided to Kabul in late February. There were no serious concerns, and the process was on track.

¶6. (C) Iraq. Kudrin said that the GOR's preference would be to announce debt relief at the time the Iraqi Government confirms the renewal of Lukoil's license for the West Qurna field. The Russian government is sensitive to appearing to have rewarded Iraq without having taken steps to secure Russian interests at the same time. He suggested that the GOI's passage of legislation addressing foreign investment in the oil sector last month meant the dual announcement could be made soon. The Ambassador cautioned that the GOI would need considerable time to implement this law before it would be in a position to confirm an individual license, and he urged the GOR to see debt relief as an early, well-placed investment in bilateral relations with Iraq. Kudrin committed to reviewing the GOR's plans on Iraqi debt.

¶7. (C) North Korea. The work of the bilateral commission is still in its preliminary stage. In Moscow, the Finance Ministry's work with the Foreign Ministry has largely focused on evaluating options regarding debt negotiations with North Korea. The GOR has made no official decisions on how to proceed. Kudrin confirmed that preliminary calculations suggest that the amount on the table is in the \$8 billion range.

#### Budget Reform

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¶8. (C) Kudrin seemed pleased that the government had approved not only his proposal for a three-year budget but a non-oil, non-gas budget as well. His goal is to minimize the budget's exposure to the oil and gas sectors. The non-oil budget proposal was in line with last year's capital account liberalization. He stressed that the proposal was a key component of plans to diversify the economy and to enhance the competitiveness of Russian industry. The GOR also had agreed in principle to the establishment of the non-oil budget's Future Generations Fund, which will use the investment income from accumulated oil and gas revenue to fund budget obligations. Exactly which obligations, he conceded, was still the subject of hot debate inside the GOR.

RUSSELL